

## Message Text

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70

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 PRS-01 USIA-15 DRC-01 /171 W

----- 123548

R 031113Z JUL 74

FM AMEMBASSY BERN

TO SECSTATE WASHDC 9236

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL ZURICH

LIMITED OFFICIAL USE BERN 2505

E.O. 11652: N/A

TAGS: EFIN, SZ, GW

SUBJECT: SWISS REACTION TO COLLAPSE OF GERMAN BANK

1. IN CONVERSATION WITH SWISS AND U.S. BANKERS OVER PAST FEW DAYS, WE HAVE FOUND GREAT CONCERN AND UNEASE RE EFFECTS ON INTERNATIONAL PAYMENTS SYSTEM STEMMING FROM FAILURE OF LARGE GERMAN PRIVATE BANKHAUS HERSTATT. TRADING IN ZURICH FOREIGN EXCHANGE MARKET SINCE JUNE 27 HAS BEEN VERY QUIET AND NERVOUS DUE, ACCORDING TO OUR SOURCES, TO UNWILLINGNESS OF BANKS TO ENGAGE IN ANY BUT THE MOST CLEARLY COVERED AND SELF-EXECUTING TRANSACTIONS.

2. ZURICH SUBSIDIARY OF SEATTLE FIRST NATIONAL BANK HAS ANNOUNCED THAT ON BASIS CUSTOMER ORDER IT SOLD THROUGH MARKET JUNE 26 TO BANKHAUS HERSTATT DM EQUIVA-  
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LENT OF 22.5 MILLION, BUT DID NOT RECEIVE PAYMENT

BECAUSE GERMAN BANK WAS ORDERED INTO LIQUIDATION LATER SAME DAY. SEATTLE MANAGER TOLD EMBASSY THAT HIS TRANSACTION MAY WELL BE SUBJECT LENGTHY LITIGATION AND THAT AT LEAST FAIR PORTION LOSS SHOULD EVENTUALLY BE RECOVERED. HE ALSO COMMENTED WITH SOME BITTERNESS RE MANNER IN WHICH BUNDESBANK HAS HANDLED AFFAIR THUS FAR.

3. FIRESTONE/AKRON HAS ALSO ANNOUNCED THAT IT HAS MADE AVAILABLE \$10 MILLION TO ITS ZURICH BANKING AFFILIATE BANK FIRESTONE TO OFFSET SF 30 MILLION TRANSACTION REPORTEDLY BLOCKED BY SWISS BANK CORPORATION. WHETHER THIS ALSO INVOLVES BANKHAUS HERSTATT IS NOT CLEAR TO US, ALTHOUGH WE BELIEVE IT QUITE POSSIBLE.

4. WE UNDERSTAND OTHER SWISS BANKS AND FOREIGN BANKS IN SWITZERLAND HAVE ALSO SUFFERED LOSSES IN CONNECTION THEIR TRANSACTIONS WITH HERSTATT. BUT ASIDE FROM SPECIFIC LOSSES, BANKERS ARE CONCERNED THAT OTHER BANKS IN EUROPE (AND US) MAY BE IN SIMILAR SHAKY CONDITION AND THUS ARE REFUSING NORMAL SPOT FOREIGN EXCHANGE TRANSACTIONS UNLESS THEY ARE ABSOLUTELY SURE OF PAYMENT. WE HAVE IMPRESSION THAT THIS PROBLEM IS VIEWED WITH CONSIDERABLY MORE SERIOUSNESS THAN WERE FOREIGN EXCHANGE LOSSES SUFFERED BY UNION BANK, FRANKLIN NATIONAL, ETC., WHICH COULD BE BLAMED ON CURRENCY ARBITRAGE/SPECULATION, OR BAD MANAGEMENT, BOTH OF WHICH ARE CORRECTABLE. IN ANY EVENT, DISCUSSION RE CONSEQUENCES OF HERSTATT FAILURE HAVE REPLACED WHEREABOUTS OF PETRODOLLARS AND CONCERN RE POLITICAL/FINANCIAL HEALTH OF ITALY AS MOST POPULAR CONVERSATION TOPIC AMONG BANKERS IN SWITZERLAND.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** BANK BRANCHES, BANKS, FOREIGN EXCHANGE TRANSACTIONS, BUSINESS LOSSES  
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**Disposition Approved on Date:**  
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**Disposition Date:** 28 MAY 2004  
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